

SOUTHERN IOWA MENTAL HEALTH CENTER
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2004

SOUTHERN IOWA MENTAL HEALTH CENTER

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SOUTHERN IOWA MENTAL HEALTH CENTER

OFFICIALS
JUNE 30, 2004

Name

Title

BOARD OF DIRECTORS

Nancy Emanuel	President
Don Bramschreiber	Vice President
Jane Richardson	Secretary
Maggie Woerner	Treasurer
Kathy Hasley	Board Member
Bob Kramer	Board Member
Max Leyda	Board Member
Karie Martindale	Board Member
Bill Tharp	Board Member
Steve Siegel	Board Member
Dan Stroda	Board Member

OTHER OFFICIALS

Donna Crookham	Executive Director
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Iowa Mental Health Center
Ottumwa, Iowa

We have audited the accompanying financial statements, as listed in the table of contents of this report, of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Iowa Mental Health Center, as of June 30, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2004, on our consideration of Southern Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 8, 2004

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$ 114,349
Receivables:	
Accounts receivable; patient services, less allowance for doubtful accounts \$37,031	86,404
Prepaid expense	6,665
Furniture, fixtures and equipment	164,453
Less accumulated depreciation	<u>(136,660)</u>
TOTAL ASSETS	\$ <u>235,211</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 16,170
Accrued liabilities:	
Payroll	13,937
Payroll taxes	809
Vacation	10,856
Pension	5,595
Litigation payable	15,000
Capital lease obligation	<u>6,489</u>
Total liabilities	68,856
Net assets:	
Unrestricted net assets	<u>166,355</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>235,211</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

PUBLIC SUPPORT AND REVENUES:

Public support:	
County funds	\$ 347,377
Federal funds and grants	36,137
Total public support	<u>383,514</u>
Revenues:	
Private fees, Title XIX and other	412,893
Promise Center	43,806
Interest	939
Miscellaneous	13,743
Total revenues	<u>471,381</u>
 TOTAL PUBLIC SUPPORT AND REVENUES	 <u>854,895</u>

EXPENSES:

Program services	764,271
Support services	<u>67,121</u>
 TOTAL EXPENSES	 <u>831,392</u>

CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEMS 23,503

EXTRAORDINARY LOSS (15,000)

CHANGE IN NET ASSETS 8,503

NET ASSETS - Beginning of year 157,852

NET ASSETS - End of year \$ 166,355

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2004

	<u>Program Services</u>	<u>Support Services</u>	
	<u>Mental Health Center Programs</u>	<u>Management and General</u>	<u>Total</u>
<u>EXPENSES:</u>			
Salaries	\$ 358,645	\$ 46,124	\$ 404,769
Payroll taxes	29,951	3,702	33,653
Group health insurance and employee benefits	55,095	6,809	61,904
Pension	<u>13,904</u>	<u>1,719</u>	<u>15,623</u>
Total salaries and related expenses	457,595	58,354	515,949
Professional fees	198,979	-	198,979
Promise Center	18,167	-	18,167
Advertising	192	192	384
Office supplies	10,836	1,204	12,040
Telephone	7,095	788	7,883
Travel	781	87	868
Repairs and maintenance	4,920	547	5,467
Dues	1,928	214	2,142
Staff development	2,286	254	2,540
Insurance	12,165	-	12,165
Cleaning	3,689	410	4,099
Rent	23,119	2,569	25,688
Miscellaneous	14,520	1,613	16,133
Interest	<u>1,246</u>	<u>139</u>	<u>1,385</u>
Total expenses before depreciation	757,518	66,371	823,889
Depreciation	<u>6,753</u>	<u>750</u>	<u>7,503</u>
 TOTAL EXPENSES	 \$ <u>764,271</u>	 \$ <u>67,121</u>	 \$ <u>831,392</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 8,503
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,503
Provision for losses on accounts receivable	(555)
Decrease in accounts receivable	1,851
Decrease in prepaid expenses	2,623
Increase in accounts payable	1,095
Decrease in accrued liabilities	(1,621)
Increase in litigation payable	<u>15,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>34,399</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment	<u>(18,976)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on capital lease obligation	<u>(2,143)</u>
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NET INCREASE IN CASH 13,280

<u>CASH AND CASH EQUIVALENTS</u> - Beginning of year	<u>101,069</u>
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<u>CASH AND CASH EQUIVALENTS</u> - End of year	\$ <u>114,349</u>
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 1,385
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SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Center is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Southeastern Iowa.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Center is classified as other than a private foundation.

B. Financial Statement Presentation

The Center has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Center is required to present a statement of cash flows. At June 30, 2004, the Center had only unrestricted net assets.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

D. Cash and Cash Equivalents

The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Receivables

The Center grants credit to clients, most of whom are located in the Southeast Iowa area. Also, the Center has grant and contract receivables from the federal, state, and county governments. The risk of loss on these receivables is the balance owed at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Center has provided an allowance for the year ended June 30, 2004, based on historical collections and management's estimate of the collectibility of accounts receivable.

F. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Purchases of fixed assets in excess of \$500 that provide future benefits are capitalized and depreciation is computed on the straight-line method over the estimated useful lives of 3-10 years. No interest costs were capitalized since there were no qualifying assets.

G. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay in effect at June 30, 2004.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H Employee Benefits

The Center has adopted a pension plan covering substantially all employees who have completed one year of service and are at least 21 years of age. The Center contributes 4% of eligible employees salaries into the pension plan. Pension expense for the year ended June 30, 2004, totaled \$15,623.

I Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2: CAPITAL LEASE OBLIGATIONS

The Center leases a copier with terms through September 30, 2006. The obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of 18 percent. The capitalized cost of \$10,011 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled \$3,337 for the year ended June 30, 2004, and is included with depreciation expense.

The future minimum lease payments required under capital leases at June 30, 2004, are as follows:

2005	\$ 3,528
2006	3,528
2007	<u>882</u>
	7,938
Less amount representing interest	<u>1,449</u>
Present value of future minimum lease payments	6,489
Less current portion	<u>2,566</u>
Long-term portion	\$ <u>3,923</u>

NOTE 3: MAJOR REVENUE SOURCE

The Center receives an annual grant from Wapello County and also provides treatment to residents of this County. Revenue from the County totaled \$299,259 for the year ended June 30, 2004.

NOTE 4: LEASE AGREEMENT

The Center leases office space under a month to month operating lease at a monthly rental amount of \$2,141. Rent expense on this lease for the year ended June 30, 2004, totaled \$25,688.

NOTE 5: CENTER RISK MANAGEMENT

Southern Iowa Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. With the exception of the item described at Note 7, settled claims for these risks have not exceeded commercial insurance coverage for any of the past three years.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 6: INSURED DEPOSITS

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center had deposits in excess of federally insured limits of \$21,684 as of June 30, 2004.

NOTE 7: LITIGATION PAYABLE/EXTRAORDINARY ITEM

During the year ended June 30, 2004, the Center was named in a discrimination lawsuit. Although the outcome of the lawsuit is unknown, it is probable that the outcome will be unfavorable to the Center and the attorney has estimated the loss at \$15,000. For the year ended June 30, 2004, \$15,000 has been accrued as a liability of the Center. Due to the unusual nature and infrequent occurrence of this type of item, \$15,000 is shown as an extraordinary item on the statement of activities for the year ended June 30, 2004.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

Board of Directors
Southern Iowa Mental Health Center

We have audited the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 8, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Iowa Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Southern Iowa Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have all been resolved except for Item A.

This report, a public record by law, is intended solely for the information and use of Southern Iowa Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Iowa Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO P.C.

Ottumwa, Iowa
September 8, 2004

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Findings Related to the Financial Statements:

- (A) Segregation of Duties - Due to the small size of your organization, one employee performs many bookkeeping duties. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should be aware of the lack of segregation of duties and periodically review its internal policies.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted

- (B) Accounts Receivable Write Off Policy - It was noted that the billing employees have the authority to write off patient amounts when it appears the amount is not collectible. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation - We recommend that the Center's board adopt a policy relating to the write-off of uncollectible accounts receivable. The policy should include a list of who within the Center has the authority to write-off accounts receivable and when they have the authority to do so.

Response - We will do so.

Conclusion - Response accepted

Other Findings Related to Statutory Requirements and Other Matters:

No matters were noted.